NATION, STATE AND THE ECONOMY IN HISTORY

EDITED BY

ALICE TEICHOVA
HERBERT MATIS

CAMBRIDGE
UNIVERSITY PRESS

PUBLISHED BY THE PRESS SYNDICATE OF THE UNIVERSITY OF CAMBRIDGE
The Pitt Building, Trumpington Street, Cambridge, United Kingdom

CAMBRIDGE UNIVERSITY PRESS
The Edinburgh Building, Cambridge, CB2 2RU, UK
40 West 20th Street, New York, NY 10011–4211, USA
477 Williamstown Road, Port Melbourne, VIC 3207, Australia
Ruiz de Alarcón 13, 28014 Madrid, Spain
Dock House, The Waterfront, Cape Town 8001, South Africa

http://www.cambridge.org

First published 2003

Printed in the United Kingdom at the University Press, Cambridge

Typeface Adobe Garamond 11/12.5 pt. *System* LaTeX 2ε [TB]

A catalogue record for this book is available from the British Library

ISBN 0 521 79278 9 hardback

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CHAPTER 1

Political structures and grand strategies for the growth of the British economy, 1688–1815

Patrick K. O'Brien

> The interest of the King of England is to keep France from being too great on the continent and the French interest is to keep us from being masters of the sea.
>
> Sir William Coventry, 1673

STATE AND ECONOMY, 1688–1815

After the Glorious Revolution of 1688, a stable political regime gradually emerged. Within the 'kingdoms' of England, Wales, Scotland and Ireland, as well as the empire, over which the state exercised jurisdiction, *private* investors remained responsible for capital formation. Private businessmen (not civil servants) organized production, distribution and exchange. Businessmen and investors looked to central government for the provision of security. They expected to be protected from risks emanating from warfare on British soil or in home waters around the isles. From the time of the Interregnum onwards, an influential minority of traders, shippers, brokers, bankers, insurers, planters and investors engaged with the international economy expected the state to become proactive in defence of their ships, merchandise and wealth located beyond the borders of the kingdom. After William III took the throne they pressured their rulers to use diplomacy and armed force to extend opportunities for British enterprise overseas.

Somehow a succession of aristocratic governments (uninvolved in any direct way with trade and industry) managed to sustain political and legal conditions that turned out *on balance* to be conducive to the rise of the most efficient industrial market economy in Europe. Yet their foreign and domestic policies usually had other objectives in view and cannot be interpreted as a 'strategy' for the long-term development of the British economy. Ministers and Parliament allocated an overwhelming share of the taxes raised from 1688 to 1815 for military purposes, but that does not imply that Britain's foreign and imperial policies can be represented as a 'mercantilist vision' for empire and for the domination of world commerce.

This chapter will bypass the motivations and perceptions of the kingdom's political elite and focus upon *the long run*. I elaborate on how the *outcome* of major policies initiated and implemented by the state may have affected the actions of those engaged in the management and development of British industry, agriculture and commerce. No doubt kings, their ministers and Parliaments unwittingly promoted the Industrial Revolution. They may even be depicted as the closest approximation to a 'businessman's government' among the *anciens régimes* of Europe. But how exactly did the state assist in carrying the British economy forward to its status as the first industrial nation? How did industrialisation promote and configure the formation of the British state? One obvious way to start is to look at the allocation of taxes and loans at the disposal of ministers. Budgetary data do not encapsulate the economic role of the state precisely. Some important functions were performed at very little cost but tabulations of public income and expenditure do quantify changes in the scale and scope of its 'fiscal impact' on the macro-economy.

Deflated by indices of wholesale prices, the statistics do 'track' the ever-increasing role played by central government. In real terms its 'normal' or peacetime expenditures on goods and services climbed by a multiplier of 3.7 per cent from around £1.9 million in the 1680s to £7.1 million a century later. Wartime expenditures jumped even more – from around £5.7 million per annum in the 1690s to £22.5 million in the 1790s and by a factor of six if we compare average annual expenditures in King William's war against Louis XIV (1689–97) with those in the war against Napoleon (1803–15). Estimated as a share of gross national income the activities of the state accounted for a tiny proportion of gross national expenditure in 1688 and that proportion rose to reach nearly a quarter in the closing years of the Napoleonic War.

Thus this period cannot be presented as one of transition to the domination of private enterprise. On the contrary, the government's revenues and expenditures assumed a place of increasing importance for the growth and fluctuations of the British economy. Even in interludes of peace the share of the nation's resources absorbed overwhelmingly for military purposes by the state exceeded the share devoted to gross investment, while wartime allocations for the army and navy amounted to multiples of national expenditures on private capital formation. Over the entire period from 1688 to 1815 the British taxpayers and investors allocated more resources to military and naval objectives than they allocated to the formation and maintenance of the domestic economy's stock of productive assets – roads, canals, docks, buildings and machines as well as housing and other items of national wealth. Budgetary records expose the Hanoverian state's central preoccupation with national security and imperial expansion. Regardless of the rhetoric or pretensions of politicians to intervene in other areas of economic or social life, the state lacked the fiscal resources needed to regulate a national economy.

Eighteenth-century Parliaments, ministers and civil servants could spend something (but not too much) to make markets operate more efficiently; to promote the construction of social overhead capital; to safeguard internal law and order; to raise the quality of the nation's workforce; to foster technical progress or to engage just a little more effectively with almost any policy of a developmental nature. Parliament did push an increasing volume of economic and social legislation through to the statute book. It repealed laws perceived to constrict private enterprise. From time to time, ministers in London dispatched orders to Justices in the countryside. But neither the executive machinery nor the fiscal resources required to promote the development of the economy were available, either in Britain or, for that matter, in any other part of Europe. Only the integrated package of strategic, diplomatic, imperial, commercial and fiscal policies could be formulated systematically and implemented more or less effectively. As far as domestic policies (social as well as economic) were concerned *laissez-faire* not only proved to be ideologically attractive, but emerged as the only practical strategy for the regime to pursue.

Naval and military imperatives commanded shares of the public revenue that simply 'crowded out' possibilities for the execution (even the contemplation) of a more interventionist economic stance. In contrast to other countries that industrialised later, British businessmen and investors had to shoulder the costs and manage the plans required to build up the realm's networks of roads, navigable rivers and canals, ports and other forms of social and overhead capital. Their governments devoted almost no public money to the training of the workforce, to research and development or even to the dissemination of scientific and technical knowledge. In 1814 Patrick Colquhoun estimated that only 0.5 per cent of total public revenues collected during the long reign of George III had been devoted to purposes that might be defined as developmental. Monarchs and ministers preferred to leave the promotion of science and technology to the patronage of aristocratic, commercial and professional associations, with an amateur interest in 'natural philosophy'. They persisted however with Tudor and earlier traditions of encouraging foreigners to bring novel products and technologies into the realm while actively prohibiting the emigration of skilled artisans and the export of machinery. They continued to rely on that other 'cheap' but rather ineffective method of encouraging technological progress – the Elizabethan patent system – as codified in the Statute of Monopolies of 1624.

HIERARCHY AND GOOD ORDER

Although this inescapable fiscal constraint provided 'space' for private enterprise, the state left the framework for law and order within which factor and commodity markets operated within the realm in a less than satisfactory condition. Yet the new political order, which developed after the Revolution of 1688, maintained free trade within England and Wales although the Hanoverian regime took several decades to integrate Scotland into a single market and more than a century to incorporate Ireland into a unified kingdom and economy.

Parliament deposed James II peacefully enough, but William III's *coup d'état* provoked civil war and considerable destruction of life and property in Scotland as well as in Ireland. Despite the political union of 1707 the 'pacification' of Scotland was not secured until more than a decade after Cumberland's troops had savagely repressed a second and more serious Jacobite rebellion in 1745. William's victories at Boyne and Limerick created conditions for a partial but sullen acceptance of established property rights and Protestant authority in Ireland. Nevertheless, the threat of sedition and isolated outbreaks of disorder remained strong enough for governments in London to station a permanent garrison of troops in that troublesome Celtic province. Problems of internal security as well as Parliament's refusal to liberalise trade between the two nations precluded their integration into a common market.

Although the Hanoverian state held the realm together and eventually (after union with Ireland in 1801) effectively dismantled barriers to trade and factor flows, a truly unified domestic market did not emerge for a very long time. Meanwhile inside their 'partially unified' kingdom those well-protected aristocrats of Hanoverian England left economic affairs to be conducted against a discernible rise in the tide of crime against property. Furthermore, social historians have now uncovered too many episodes of collective protest, resistance, intimidation and violence for historians to assume that the landowners, farmers, millers, bakers, transporters, industrialists, merchants and retailers of Hanoverian Britain used their assets and managed their enterprises in the climate of security, approval and autonomy enjoyed by their counterparts during the heyday of Victorian capitalism. Unfortunately (as with criminal activity) no way exists of measuring the scale or severity of these potentially real social constraints on managerial authority and the rights of property owners to allocate their resources to uses that they perceived to be profitable. Over the eighteenth century disorder and challenges to property and authority certainly constituted economic as well as political problems.

Nevertheless, the capacity of 'paternal' governments of the day to deal viciously with the lower orders is also clear. Hanoverian authority came down persistently and effectively in favour of property and against customary rights, in support of masters and against the traditional expectations of workers and consumers who appealed to the traditions of an older 'moral economy'. Liberal historiography, which portrays eighteenth-century England as a 'free' market system, neglects to analyse the experience of large sections of the labour force (young people, women, semi- and unskilled labourers of all kinds) who lived out their working lives within an 'authoritarian' framework of law which severely curtailed their freedoms, including their rights to work or not to work, to select occupations, to withdraw their labour, to search for alternative employment or to engage with impunity in 'insubordinate' behaviour towards their bosses. Englishmen may have been free born but statutes of the realm dealing with masters and their servants, apprenticeship, poor relief for the able-bodied, vagrancy and delinquency gave employers political and judicial authority over their workers, which left the eighteenth-century labour market suspended somewhere between feudal servitude and the idealised free contractual system of political economy. Parliament maintained the traditional legal and political framework for labour relations in a condition that preserved hierarchy, authority and the extraction of optimal workloads. To counterbalance the paternalism and flexibility occasionally displayed by Justices at local level, from Westminster there came streams of injunctions designed to tighten up on the allocation of poor relief and the execution of vagrancy laws in order to force 'idle' workers, dependent juveniles and women to take up virtuous toil at low wages. Parliament also legislated to transpose traditional 'perquisites' attached to particular jobs into criminal acts of embezzlement. Recognising that the common law had not proved to be a deterrent to the formation of combinations of skilled workmen, the House of Commons also enacted no fewer than forty statutes prohibiting the formation of unions in particular crafts and locations, even before it passed the Combination Act of 1800 which outlawed all forms of collective bargaining.

Although the rights of property and the autonomy of masters could not depend on anything that could be recognised as effective protection from local police forces, serious and persistent challenges that could not be settled by established local authorities were on the whole put down by the military forces of the crown. It can no longer be claimed that Britain's constitutional regime lacked that will required to deal with a so-called 'ungovernable people'. Local militias and yeomanry could be embodied fairly quickly at the request of the magistrates. The War Office displayed little reluctance to dispatch troops to meet demands for armed force from any part of the kingdom, particularly after the rebellion in America, and with even more alacrity after the outbreak of revolution in France. With British troops mobilised to war for such a large part of the century Parliament's antipathy to a standing army looks irrelevant – at least when it came to coping with conceivable economic losses from problems of internal disorder.

Somehow the Hanoverian state presided successfully, and in fiscal terms at minimal cost, over a society on its way through an industrial revolution. It dealt with crime on the cheap by enacting a savage code of punishments for the unfortunate minority who happened to be convicted; it suppressed disorder and supported authority without difficulty in the countryside and surprisingly easily in the growing towns of the realm.

Perhaps its 'success' in maintaining the good order required for the spread of markets rested in large part on the polite and peaceable behaviour of the population at large. Loyal to the Protestant succession, patriots of a nation acquiring an empire and almost perpetually at or on the edge of war, open to persuasion from the established church, deferential towards birth, respectful to wealth and power, even those who actively resisted the encroachments of capitalism upon customary rights rarely confronted their superiors with anything more challenging than claims to paternal protection. Protesters could often be placated by minor concessions offered to uphold a dying moral economy or the common law.

Concessions for the sake of good order were, moreover, offered by England's hereditary ruling class – enforcing traditional and widely accepted codes of conduct. That aristocratic elite's reward for running offices of state, church, law and and local government had long been secured as rents levied upon agricultural production. Its authority could be extended at low fiscal cost to include new tasks involved in maintaining law, order and hierarchical systems of authority over the long period of transition to an industrial society. Britain's '*ancien régime*' proved to be secure and flexible enough to accommodate gradual but, by 1815, rather profound structural changes to the economy. The 'good behaviour' of the majority of the populace coupled with the status and acceptance of aristocratic government ensured that a potentially unfavourable coincidence of rapid population growth and urbanisation, on the one hand, and serious challenges to established authority, on the other, did not occur. Unlike in France, the Netherlands or Spain, political disruption did not emerge to frustrate the course of economic change until it became irreversible. As Shelburne so aptly put it, 'providence has so arranged the world that very little governance is necessary'.

LAW AND THE OPERATION OF COMMODITY AND FACTOR

Nevertheless, Shelburne's 'Whiggish' comment should not conflate civil order with the legal conditions required for the operation of competitive markets. Most liberal historians applaud the stance taken by the Hanoverian state in allowing industries to escape from the fetters of guild controls, by relocating beyond the boundaries of corporate towns, but the economic costs of permitting guilds to survive in a very large number of towns right down to 1835 have not been assessed. They have also commended Hanoverian Parliaments and ministers for recognising the futility of attempts to regulate prices and wages and for resisting pressures for the rigorous enforcement of rules for apprenticeship embodied in an Elizabethan statute of 1563. That was generally but not invariably the case and Parliament did not repeal that statute until 1814; additionally the powers conferred on Justices of the Peace to assess wages and regulate food prices continued to be used from time to time. Parliament's failure to sweep away a penumbra of more or less obsolete statutes and to push the courts towards an assertion of free market principles created uncertainty among businessmen and traders and gave a semblance of legality to the actions of disorderly crowds and combinations of workmen seeking to use collective forms of organisation, intimidation and violence, to change prices and wages in their favour. Benign neglect can be represented as preferable to implementation of the state's extant powers to interfere with factor and commodity markets but its *laissez-faire* or inactivity in several respects looks less than masterly.

For example, as markets widened and specialisation increased the costs of transacting business across time and space went up. Well-defined and enforceable rules were required to promote the patterns of competition, co-operation and good behaviour required to make impersonal exchanges work efficiently. In England private property rights to land, minerals, houses, transport facilities, agricultural, industrial and commercial assets and to human skills and labour power had become legally enforceable under common or statute law long before 1688. Rules governing trade, exchanges and conditions of employment had also evolved over the centuries into modes of conduct widely accepted by businessmen and the workforce at large. During the industrial revolution commodity markets continued to operate within a heritage of law and codes of conduct. From 1688 onwards Parliaments engaged in a process of rescinding and amending a traditional body of law and adding new rules for the conduct of economic relations, but at the margin. Furthermore, laws might be interpreted more or less as Parliament intended by less than compliant courts and put into effect within wide margins of flexibility by the incompetent administrative machinery available for their execution. Historians are no longer seduced by *printed* statutes of the realm, but interpretations of the law by the courts (particularly of the common law) and the haphazard nature of law enforcement make it difficult to analyse connections between law and the spread of markets from 1688 to 1815. Whenever their transactions with each other broke down businessmen could appeal to the common law and turn to the established courts to safeguard and to indemnify them against risks from fraud, bankruptcy and breaches of contract between firms. But in all these matters the English legal system did not offer speedy, cheap and economically efficient ways of minimising risk and settling breaches of contract between firms. In dealing with disputes between businessmen and their customers, or in making arrangements for economically efficient settlements between creditors and debtors, reforms occurred, but the jurisdiction on offer to businessmen in Hanoverian England continued to be unpredictable, expensive to procure and suffused with considerations of equity, of custom and other anachronistic obstacles to the diffusion of competitive markets. Fortunately (and perhaps for an overwhelming share of their transactions?) businessmen abided by their own codes of practice, backed by sanctions which rested upon mutual interdependence and upon the preservation of 'reputation'. When necessary, they resorted to their own systems of arbitration, conducted by trade associations, guilds, chambers of commerce and other peer groups who applied commercial rules to disputes and to breakdowns in normal business relations.

From time to time Parliament stepped in and legislated, for example, to compel the courts to recognise promissory notes as assignable instruments of credit and in 1776 and 1779 passed bills designed to protect small debtors from imprisonment. Governmental interventions did not always operate with benign effect. Parliaments of landowners (antipathetic to forms of ownership that were not proprietorial or family-based and hostile to commercial dealing in 'paper' assets) passed the Bubble Act in 1720 and outlawed the 'infamous practice' of jobbing in stocks and shares thirteen years later. With these two acts the state placed barriers in the way of an ongoing evolution towards corporate forms of business enterprise which operated to depress the rate of investment and to maintain the capitalisation of industrial and commercial firms (particularly banks) at a scale which contributed to cyclical instability. Ultimately more baneful, the law sustained a tradition of family-based business organisations in Victorian Britain that proved itself to be ill-adapted to meet competitive challenges from American and German corporations during the second industrial revolution of the late nineteenth and twentieth centuries.

In 1688 Parliament took over responsibility for the management of the money supply from the crown, but it failed to meet demands from the growing economy for increasing supplies of coins or to legislate for the regulation of bank money and paper credit. Its *laissez-faire* stance towards the money supply left businessmen exposed to unnecessary deflationary pressures associated with shortages of coin and to instability associated with uncontrolled extensions of credit at one and the same time. All in all eighteenth-century governments exercised responsibility for the nation's coinage with manifest incompetence. They maintained fixed mint prices and parities which encouraged the export of gold and silver bullion and melted-down coins. This left the domestic economy chronically short of coin, especially silver coins of small denomination. Fortunately a network of financial intermediaries (merchants, bill brokers, London and country bankers) developed to fill the gap and to provide convenient and elastic forms of paper substitutes (banknotes, bills of exchange, book credit, cheques) for metallic money. Virtually unregulated, private commercial enterprise assumed responsibility for the expansion required in the nation's supply of money and the development of a financial system that carried the British economy through nine wars and an industrial revolution without widespread breakdowns, serious episodes of inflation or loss of confidence in paper credit. Nevertheless, cycles of economic instability, which occurred long before the famous crises of the years after 1819, can be associated with unregulated and imprudent extensions of bank credit. Throughout the period (indeed until well into the nineteenth century), neither the central government nor the governors of its chartered Bank of England wished to assume responsibility for the management of the money supply. Most classical economists remained unwilling to hand over that 'awesome' power to the state or the governors of the Bank of England, although they also expressed persistent and grave doubts about an unregulated, uncontrollable system of free and 'wildcat' country banking.

FOREIGN AND STRATEGIC POLICY

In an unstable international environment, Britain's monarchs and ministers had to cope with the omnipresent ambitions of France, the decline of Spain, the vulnerability of the Austrian Habsburgs, the expansion of Russia and Prussia, seditious Celts, a far-flung empire and, above all, with the unpredictable nature of dynastic crises of succession which afflicted all the royal houses of *ancien régime* Europe.

Taking the international order and the enmity of France (and its Bourbon ally Spain) as the givens of power politics, economic historians cannot ignore those vast and ever-increasing sums of public money allocated in order to preserve the security of the realm, to seize and defend Atlantic and Indian empires, and to safeguard the kingdom's increasing commitment to foreign trade, while also being used from time to time in the state's shameless efforts to weaken the competitive power of rival economies. They must at least inquire as to whether all that money was well spent. How far did the strategic policies pursued by successive Hanoverian governments contribute to the industrialisation of the economy? Perhaps a great deal of public revenue was (as radicals insisted) wasted in pursuit of dynastic aims with no obvious spin-offs for economic growth and the welfare of the people?

Such questions look more manageable than the idle pursuit of counterfactuals in the form of 'isolationist' scenarios for foreign policy and prompt economic historians to rejoin mercantilist discussions concerned with the political economy of diplomacy and military strategy. They lead to a re-engagement with the problem of analysing the potential benefits of public expenditures and to an escape from the entirely unbalanced preoccupation of liberal thought since the time of Adam Smith with the costs of taxes and loans.

Mercantilists and eighteenth-century statesmen argued a great deal about 'power and profit'. In going over debates of the day, modern military historians have distinguished two persistent and antagonistic refrains among the cacophony of contemporary views that can be read about the economic implications of Britain's military and diplomatic relations with the rest of Europe. Their separation between 'blue water' and 'continental commitment' approaches to grand strategy is instructive to contemplate.

Between 1688 and 1815 the Hanoverian state lacked the authority to conscript manpower on a large scale, as well as the fiscal base (and the political will) to maintain ground forces on the Continent for any length of time. Just as British governments carefully nurtured the nation's comparative advantages in seapower, its enemies France and Spain sustained their martial traditions on land. To mobilise the 'foreign' armed force required to counter the ambitions of two formidable Bourbon enemies within Europe turned out to be the most expensive and certainly the most controversial aspect of Hanoverian foreign policy. It gave rise to clamour for the more 'cost-effective' blue water option. Indeed a great deal of public revenue was allocated to maintain military alliances with European powers prepared for their own national interests to confront France and her allies on the mainland. In fiscal terms, that aspect of British 'grand strategy' involved three politically vulnerable courses of action: the hire of less than dedicated regiments of Hessian, Hanoverian, Swiss and other mercenaries; the allocation of direct subsidies often transferred in the form of hard currency into the coffers of so-called friendly emperors, kings and princes; and finally the serious commitment (in 1689–97, 1702–13 and 1808–15) of British infantry and artillery to long campaigns on the Continent. Requests to send troops to European theatres of war were often made by Britain's Dutch, Austrian, Russian, Prussian and other European allies, but only rarely agreed to by governments in London. They sensibly sought to keep three options open: first, to retain soldiers at home in case the enemy managed to land on the kingdom's shores; second, to turn off flows of subsidies (including exports of military hardware) as and when it suited Britain's strategic interests to do so; and third, to wind up a war by serving notice on regiments of mercenaries, thereby avoiding the serious problems of crime and disorder associated with the demobilisation of masses of British troops in home ports. Furthermore, the three occasions when William of Orange, Anne and George III did commit ground forces to campaign in Europe are all associated with drastic rises in levels of military expenditures, balance of payments crises, currency depreciation and an emergence of 'war weariness' among public opinion at home.

On the Continent 'Perfidious Albion's' devious diplomacy and the use of its wealth and fiscal advantages to 'buy' foreign armies to do its dirty work inspired distrust and resentment. As Europeans correctly observed, while their own manpower, capital assets, agricultures, towns and trade bore the brunt of armed attacks from France and her allies, Britain preserved her island security and exploited her naval superiority to expand territorial possessions and commercial opportunities overseas. No wonder all Europe gloated when George III lost his thirteen colonies in the Americas.

Then and now Englishmen hankered for the simple and ostensibly profitable blue water strategy. Did not European allies distrust their intentions, take their money and all too often fail to deliver effective and promised amounts of force to the fields of battle? Yet continental commitments surely represented an integral and necessary component of Britain's grand strategy. Of course, from time to time (examples are too numerous to list), British revenues, equipment and lives were wasted in ill-conceived or badly executed campaigns by armies on the mainland. Nevertheless, the 'aristocratic' view that rather high levels of expenditure on the ground forces of Britain and her allies were essential for the protection of the realm, the support of the navy and the containment of France turned out to be correct in the long run. But to the chagrin of merchants and mercantilists that policy did involve the acceptance of peace treaties and the granting of economic concessions to European powers that did not allow them to 'cash in' on the spoils of victory.

Meanwhile, the altogether more massive and consistent investment by the Hanoverian state in naval power paid off. Through nine wars (with three, perhaps four, conspicuous lapses when the incompetence of French and Spanish admirals saved the day), the Royal Navy remained in command of the English Channel and the North Sea. Its blockades and occasional first-strike actions prevented the combination of hostile fleets with sufficient fire power to outgun the Admiralty's men-of-war stationed in home waters.

European perceptions that the British economy gained more relatively from mercantilist warfare are surely correct. Between 1688 and 1815, foreign troops never ravaged the nation's towns, destroyed its capital equipment or ransacked its inventories of grain, animals, industrial raw materials and transport equipment. In wartime the share of the English workforce (particularly artisans) drafted into the army remained at manageable proportions because the War Office recruited from the unskilled and potentially under-employed (often Celtic) fringes of the workforce, because governments hired large numbers of foreign mercenaries, and because monarchs and ministers concentrated the bulk of military investment in waging more capital-intensive – that is to say naval and offshore – forms of military strategy.

In several significant respects this 'British way of warfare' complemented and sustained the long-term progress of the economy. In retrospect, that is why it seems sensible to represent expenditures on the navy and army as the Hanoverian state's implicit commitment to an integrated package of strategic, imperial and commercial policies for the long-term development of the kingdom. Even its most famous critic, Adam Smith, argues for 'defence before opulence', which is not perceptive enough. Defence formed an integral part of opulence. Expenditures upon armed forces (and the strategic concentration on the navy) provided 'preconditions' for a significant part of the economic growth achieved between 1688 and 1815. Links between power and profit connect the navy through the defence of the realm and foreign trade to the ongoing industrialisation of the economy. Naval power forestalled, repelled and protected the British Isles from invasion and provided its capitalists with the security required to invest in the long-term future of their economy and empire. True, a larger, more professional army stationed in barracks within the kingdom might have provided a cheaper and comparable measure of security, but that unpopular option could never allay the anxieties of businessmen and investors about the potential stability and predatory intentions of the crown, acting as the commander-in-chief of a larger standing army. At the end of the wars demobilised merchant seamen went back to sea.

Several overlaps (between public investment in the construction of warships, royal dockyards and naval organisation on the one hand and the mercantile marine, shipbuilding and foreign trade on the other) suggest that the allocation of skilled merchant seamen and other scarce resources to the Royal Navy carried in its train benefits for the civilian economy. Examples of such 'externalists', including improvements to the design of ships, to nautical instruments, maps, metallurgy, food preservation, to training in seamanship and even to medical care, have been detected as by-products of naval expenditures. The navy surely generated more spin-offs than can be found to have accrued from public money allocated to feed, clothe and arm soldiers.

Finally, the primary connection between expenditures on the navy and the growth of the nation's commerce with foreign and above all the imperial markets cannot be underestimated. Exports, imports, capital flows, shipping, services, marine insurance, international banking and commodity exchanges, and the growth of London, Liverpool, Glasgow, Bristol and other ports are all connected in so many ways to the Hanoverian navy. In a mercantilist age, the scale of economic development linked directly and indirectly to an ever-widening and deepening commitment to foreign trade and to the servicing of the international economy is inconceivable without persistent support from British seapower. As Pitt's Secretary for War, Henry Dundas, observed in 1801, 'it is obvious that the present strength and pre-eminence of this country is owing to the extent of its resources arising from its commerce and its naval power which are *inseparable*'.

Only the preoccupation of nineteenth-century liberals with the 'costs' of taxes and loans required to pay for it all makes it necessary to remind ourselves that ships-of-the-line, cruisers and frigates kept open trade with Europe, especially during those difficult years of Napoleonic blockade. The navy frustrated enemy attacks on British ships in the Channel and the North

Sea. The navy captured and maintained a fortified network of bases in the Mediterranean and along the perimeters of the Atlantic, Pacific and Indian oceans to protect British ships and their cargoes in blue waters far from home.

Naval organisation (convoys) eventually contained the long-running *guerre de course* waged with skill by French, Spanish, Dutch and American privateers against British trade. In most wars and thanks to superior naval organisation, the balance sheet of prizes (ships and their cargoes taken) exceeded domestic losses to enemy privateers by a considerable margin. That represents a victory for British public enterprise over the individualism of French and other privateers. Despite all the obstacles, interruptions and risks associated with the conduct of international trade in that dangerous international economic order, British exports continued to expand. Thanks to the Royal Navy, the nation's commerce was never crippled or even for long contained. The outward orientation of a rather small economy on the edge of Europe persisted as an endurable and effective strategy for its long-term transition to the status of a hegemonic power and workshop of the world.

Yet there are well-elaborated objections to representing foreign trade, linked with the Royal Navy, as *the* engine of Britain's economic growth from 1688 to 1815. Trade (it has been argued) was but 'the handmaiden of growth'. The increased volume of sales overseas emanated from the growing efficiency of the economy rooted in technical progress and entrepreneurial vigour. In theory there were always alternative growth paths to follow. In a fully employed economy, the gains from trade (exporting in order to consume imports at lower cost) are likely to have been small. Counterfactual 'Stuart' strategies for the long-run growth of the British economy (based on its partially integrated home market) are surely instructive to contemplate. Contemporaries would, however, have found it difficult to envisage how industrialisation and urbanisation (as well as the penumbras of favourable spin-offs that flowed from closer involvement with the world economy) might have emerged if British monarchs had radically constrained that involvement from the reign of William III onwards. Between 1688 and 1815, as the economy became more committed to international commerce (and its wealth increasingly vulnerable to hostile forces outside the kingdom), Hanoverian governments became more willing and the taxpaying public more compliant towards the expenditure of ever-increasing amounts of revenue in order to expand and defend Britain's interests in the Atlantic economy, the Mediterranean and the Indian Ocean. Only Jacobites fumed in the wilderness against this strategy. Aristocratic politicians (who disdained men of trade) entertained few doubts about promoting and protecting the nation's commerce. Merchants and industrialists lobbied for the use of force and diplomacy to open markets, to acquire territory overseas and to compel their colonial cousins to buy British. Mercantilists wrote pamphlet after pamphlet to extol the pursuit of power and profit. Was all this expenditure of political effort, bourgeois money and intellectual energy merely an unnecessary and economically flawed way to defend the realm, develop the economy and strengthen the state? Surely the Hanoverian regime's 'grand strategy' for the protection of the home market and for safeguarding the nation's commerce with the rest of the world created the necessary political conditions for the industrialisation of a relatively small market economy trading at the core of the largest occidental empire since Rome?

Along the way some misallocation of resources certainly occurred. There are numerous examples of inept diplomacy, military disasters, profligate expenditure and, by Gladstonian standards, the corrupt misappropriation of taxpayers' money raised to fund the army and navy. Spending by military departments of state, commanders of ships and gentrified but greedy colonels of regiments proved to be extremely difficult to control everywhere in Europe in the eighteenth century. Historians of public finance could follow up radical critiques of Britain's aristocratic governments and guesstimate the proportion of public money that they 'wasted' from all those millions of pounds raised and spent to carry the state and the economy through to that more peaceable international order which succeeded the decline of French power after 1815. Meanwhile economic historians can only assume that expenditures on military force by the Hanoverian state were basically unavoidable, and over the long run 'cost effective'.

TAXATION

To fund their interrelated military and commercial strategies Hanoverian governments raised taxes and borrowed sums of money way beyond the administrative capacity or the political comprehension of Tudor and Stuart regimes. Taxes rose in real terms by a factor of fifteen between the reigns of James II and George IV. Stable inflows of revenue into the Exchequer formed the indispensable basis for the accumulation of a perpetual national debt, which proved to be such a potent weapon for the rapid and sustained mobilisation of financial resources in wartime. To some extent the fiscal prowess of Orange and Hanoverian regimes might be regarded as fortuitous. A Dutch king took over an 'under-taxed' economy from an unpopular Stuart monarch, secured a political settlement with Parliament and embarked upon war to defend the Protestant succession. This enabled his ministers to increase revenues to previously 'unthinkable' levels. Taxes never again fell back to anywhere near the modest exactions 'extorted' by Charles II and his brother James II. Fortunately, the economy and the tax base continued to grow. Did that occur despite or because of the 'depredations' of the state? Industrial development, the spread of internal markets and growth of trade certainly assisted successive governments to innovate taxes and levy ever higher rates of duty. But clear jumps in the shares of national income appropriated as taxation (even in peacetime) confirm the discontinuity in politics and fiscal administration. That unmistakable outcome of the Glorious Revolution also points to the 'compliance' of England's taxpaying public with the aims of the new regime, as well as to a shrewd recognition by those who managed its fiscal policy that indirect taxes levied upon imports and, in growing proportion, upon domestically produced goods and services, would provoke less resistance than attempts to assess potentially more progressive, but ultimately unacceptable, direct taxes on income and wealth. Until Pitt the Younger introduced the first income tax in 1799, the fiscal system shifted steadily in favour of taxes on commodities and services. Furthermore, all chancellors recognised it would be expedient to tolerate rather high levels of fraud and evasion, particularly in Scotland and other potentially seditious provinces and virtually untaxable parts of the realm. Apart from the large and costly exception of the American rebellion, no tax revolts marked the upward rise in military expenditure.

Meanwhile industrialisation progressed in an economy 'afflicted' by an ever increasing 'burden' of taxation. For the times, the British enjoyed the distinction of being the most highly taxed nation in Europe, even if their government's military–fiscal matrix was transparent and widely admired. Taxes went up in wartime to fund interest bills on loans floated to cover suddenly enhanced levels of military spending. Taxes remained at higher levels over subsequent interludes of peace in order to service an irredeemable public debt – accumulating over time as a direct consequence of engagements in warfare. Economic historians cannot hope to conclude much about the economic effects of taxation. There were literally hundreds of taxes of every kind and their incidence is extremely difficult to determine empirically. To say anything at all, tax burdens must be related to social groups, economic activities and types of expenditure liable for taxation.

For example, the land and other directly assessed taxes, levied upon the wealthy, were increased radically and collected far more effectively during the wars against Louis XIV from 1689 to 1713. Thereafter, and especially when land values began their long upward climb from mid-century onwards, the nation's propertied elite transferred a diminishing share of their incomes to the state in the form of direct taxation. For political reasons such taxes levied directly on the rich could not be imposed at anything like progressive rates. All in all the Hanoverian state did not use the fiscal system to check growing inequality in the distribution of wealth and income: apart from the very poor, all groups in British society found themselves paying ever-increasing absolute amounts in direct taxes, but the non-progressive incidence of this form of taxation seems almost designed to contain any deleterious effects upon incentives to save and invest.

To make even tentative statements about the social and economic incidence of that more important and extraordinary range of customs, excise and stamp duties imposed by successive chancellors over the period is extremely difficult. In favouring indirect taxes, and spreading their burden across all ranks of society, the Hanoverian state maintained a fiscal strategy that became more and more regressive. But we must be clear what we mean by that loaded epithet. Necessities of the poor (their basic foodstuffs, clothing and shelter) remained exempt. Unlike today, chancellors of that time selected commodities and calibrated rates of taxation in order to take more money away from those with higher incomes. (For example, brandy and silk carried higher rates of duty than did beer and linens.)

Assuming, along with politicians of the period, that indirect taxes were in general passed on in the form of higher prices, enables us to suggest that between 1755 and 1815, the *share* of consumers' expenditure appropriated as customs, excise and stamp duties may have risen three to four times. An earlier jump from 1670 to 1720 may have been even more pronounced.

Most of the revenues passing through the hands of tax collectors circulated back into the domestic economy as expenditures for the food, clothing, equipment, ships and weapons supplied by British firms to keep navies at sea and armies in the field. Unfortunately a not insignificant proportion 'leaked out' of the realm into expenditures on imports and in wartime to fund mercenaries and British forces serving overseas. It is this 'share' that represents the macro-squeeze on consumption that operated, particularly in wartime, to depress the home market for British industry and agriculture.

The entire budgetary process of taxing and spending by the state altered patterns of demand and supply for goods and services. There was no value added tax and demands for more 'heavily' taxed commodities (such as beer, spirits, tobacco, salt and tropical groceries) were penalised. Other goods and services (textiles, processed foodstuffs, paper, metallurgical and engineering goods, household utensils and furniture, and internal transportation) escaped with lighter taxation. Rapidly growing and innovative industries were not, however, seriously burdened by taxes on their final outputs or raw materials. From the 1690s onwards, nearly all sectors of industry also enjoyed higher levels of protection in home and imperial markets. Despite a never-ending search for new taxes chancellors avoided whole areas of manufacturing activity. Their 'depredations' and 'distortions' tended to fall on established and taxable agro-industries – beer and its ingredients, spirits, vinegar, cider, salt, refined sugar, tobacco, soap, starch and candles. They also hit rapaciously at bourgeois families with aspirations to reside in more comfortable, spacious and civilised homes, to dress with style and to emulate the consumption patterns of those above them in the social scale. England's so-called 'consumer revolution' occurred in the teeth of the taxmen. Furthermore, British businessmen could avoid taxes by exporting their wares to foreign and imperial markets. Export duties almost disappeared in the late seventeenth century. If the mounting burden of indirect taxes narrowed the home market, drawbacks, bounties, imperial preferences and attacks on enemy (and even on neutral) commerce secured and safeguarded markets overseas.

Britain's fiscal policy (which complemented strategic commercial and imperial policies) promoted exports and encouraged the development of the mercantile, shipping and financial services required to integrate the populations of the kingdoms, the empire and (after 1846) peoples everywhere into a common and effectively policed international market.

BORROWING AND NATIONAL DEBT

Many an eighteenth-century commentator can be cited to support recent exercises in cliometric history which show how the massive rise in borrowing by the state (in order to provide immediately for the cash required to wage war) 'crowded out' the formation and maintenance of the stock of capital upon which the progress of the economy depended. 'Crowding out' almost certainly accompanied every Hanoverian war, waged largely on borrowed money. Dampening effects on private investment usually appeared in construction or similar lines of capital formation connected to urbanisation that were particularly responsive to variations in interest rates, and where investors competed directly with the state for loanable funds on the London capital market.

The Treasury experienced no difficulty in that competition because if necessary it could offer rates of interest above the legally allowable maximum of 5 per cent and because investors could reasonably anticipate capital gains at the end of hostilities. Securities or bonds sold by the state developed into a relatively riskless and highly attractive asset for nationals and foreigners alike, not simply because the Hanoverian regime (unlike its Stuart predecessor) repaid debts and met its interest bills, but also because the English state devoted loans to winning wars and strengthening the fiscal base upon which the servicing of the government's debt depended. Despite the accumulation of a national debt which rose from a nominal capital of less than £2 million in 1688 to £834 million in 1816 (from less than 5 per cent of GNP to over twice its level), the cost of borrowing (on comparable public securities) declined from about 8–9 per cent in the wars against Louis XIV in 1689–1713 to below 5 per cent in the war against the French emperor, Napoleon, in 1802–15.

Between the Glorious Revolution and Waterloo, competition for loanable funds between the government and the civilian economy diminished as savings rates rose to accommodate the voracious demands from the forces of the crown to fund their activities in wartime. In the short run and in a counterfactual sense, some potential capital formation failed to occur – particularly during the wars against France from 1793 to 1815 when inflows of foreign capital may have met a smaller proportion of the government's demand for loans than had been the case in previous conflicts. Modern economics suggests that military expenditures tend, over the long term and particularly in wartime, to depress consumption rather than investment expenditures. That almost certainly occurred during most of the wars Britain engaged in between 1689 and 1815.

Trends in the cost of borrowing indicate that the British economy (perhaps with rather strong assistance from inflows of foreign and refugee capital from Europe) found it progressively less difficult to fund the accumulation of civil and military investment upon which its development was based. The accumulation and careful management of the national debt crowded 'in' as well as 'out'. It is not difficult to identify positive as well as negative economic consequences that flowed from public borrowing. For example, public debt diffused the habit of impersonal investment and encouraged saving, particularly in wartime when appeals to the propertied elite to buy bonds could elicit 'patriotic and prudential' as well as economically rational responses to help their armed forces defeat foreign enemies who ultimately threatened their own wealth and status. Sales of bonds, of Exchequer and military bills provided British capitalists with portfolios of low risk and liquid paper assets – on the basis of which they could afford to venture more savings into commerce, industry and agriculture. Dealings in sound governmental paper also helped to integrate segmented capital markets within the kingdom. And metropolitan financial intermediaries developed the expertise required to attract Dutch, French, Swiss, German and even American capital into that reliable and militarily safe haven for money – the City of London. Is it plausible to regard the national debt as the engine of a conjoined eighteenth-century revolution in public and private finance? For example, the rise of the City first to become the hub of a national capital market and in short compass to surpass Amsterdam and all other European cities as the centre of the international monetary system occurred after a century of profitable and educational interactions between the Bank of England, London banks and the Stock Exchange on the one hand, and Hanoverian public finances on the other. Spin-offs for industry, agriculture and trade from the steady growth in London of institutions that eventually matured into the most efficient capital market in Europe must, in some degree, have compensated for crowding out effects in wartime.

Furthermore (as radicals noticed), the burden of debt servicing charges went up and up and laid claim to an ever-increasing proportion of taxes collected in peacetime. That significant fiscal constraint on central government's room for manoeuvre rose from a negligible amount in the reign of James II, to around a quarter of tax receipts at the turn of the eighteenth century and up to reach 55 per cent of total receipts in the aftermath of the Revolutionary and Napoleonic Wars. As commentators remarked at the time, the social effects of transferring income through a budgetary process, which collected revenue from taxpayers distributed across income bands in general and transferred it to holders of the national debt (concentrated in higher income brackets), could only be 'regressive' – and that effect intensified whenever price levels declined at the end of the hostilities. Politically the regime survived persistent attacks made on its debt by radicals, Tories and other believers in 'real' as distinct from 'fictitious' property. Economically the regressive transfer process associated with the rise of the national debt operated to raise rates of saving, investment and economic growth over the longer run.

CONCLUSION

A liberal and competitive world economy of the kind that prevailed from 1846 to 1914 forms a far superior environment for economic development than the 'mercantilist order' which British governments, merchants and industrialists operated from 1688 to 1815. Given the unavoidable fiscal constraints upon any pretensions it may have entertained to actively promote economic development at home, the Hanoverian state seems to have been remarkably successful in implementing policies that inflicted minimal damage upon the domestic economy. On balance, but not by any grand design, it promoted structural change and the long-term growth of per capita income.

For example, at home the new regime continued to operate a less than efficient system of common law and sustained authoritarian codes of labour control. Slowly the state became immune to Jacobite sedition and to lower-class threats to good order. At minimal fiscal cost, as a hereditary ruling elite, Hanoverian monarchs, ministers, Members of Parliament and Justices of the Peace successfully exploited feudal powers, status, deference and the Anglican religion to maintain political and managerial authority over a population growing rapidly in size, younger in age and more urban by the year.

Most mercantilists, as well as Malthus, believed the Hanoverian economy operated for long stretches of this period below full employment levels, particularly in peacetime. In their view, enhanced levels of military expenditure pushed the economy closer to full capacity utilisation and thus in some degree the wars of the age paid for themselves. Even so, by any standards the expenditures on the armed forces required to underpin the kingdom's foreign and strategic policies look massive and possibly profligate. On the credit side, between 1688 and 1815 no invasions of the homeland wasted the domestic economy. Before 1805 no great power emerged on the mainland of Europe capable of obstructing the kingdom's trade with the Continent. Foreign aggression against British commerce and territories overseas diminished. After the recognition of its independence in 1783, the United States was soon 'reincorporated' into the Atlantic economy which had Britain at its hub. Meanwhile diplomacy, backed by military force, had compelled the rival empires of Portugal, Spain and Holland in South America and Asia and the Moghuls in India to concede entrées to British trade ships. British privateering, together with blockades and assaults upon the mercantile marines of Holland, France and Spain by the Royal Navy (coupled with the vulnerability of Amsterdam and Frankfurt to invading French armies on the Continent), formed 'military preconditions' for the City of London's rise to a dominant position in international services.

Apart from that unmeasured windfall associated with the loot from India, which flooded in after Plessey, gains for the national economy took nine wars and decades of diplomatic activity to achieve – and even longer to mature into secure markets for exports and imports and into flows of private profits, rents and wages and jobs for the surplus population from the Celtic and other under-employed regions of the economy. During the eighteenth century, mercantilist intellectuals and aristocratic politicians claimed the gains from commerce represented real and sustainable returns for the ever-increasing burdens of funding defensive and offensive expenditures borne by British taxpayers. Ignored for too long by the proclivity of liberal political economy to concentrate on the costs of armed force, they form the 'credit' side of an unconstructable balance sheet to offset against the costs of crowding out, rising and regressive taxation and the instabilities in economic activity associated with those unavoidable cycles of war and peace that accompanied the British industrial revolution.

During that long, but by historical standards, rapid transition, Hanoverian statesmen entertained no illusions about the international order their businessmen had to operate within. For more than a century when the British economy was on its way to maturity as the workshop of the world, its governments were not particularly liberal or wedded to *laissez-faire*. Like the proverbial hedgehog of Aesop, the Hanoverians knew one big thing – that security, trade, empire and armed aggression really mattered. In fruitful (if uneasy) partnerships with bourgeois businessmen, they poured millions into strategic objectives which we can now see (with hindsight) formed preconditions for the market economy and night watchman state of Victorian England, as well as the liberal world order, which flourished under British hegemony from 1846 to 1914. By that time men of the pen, especially the pens of political economy, had forgotten and did not wish to be reminded of what the first industrial nation owed to men of the sword.

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